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GROUNDBREAKING CEREMONY RECOGNIZES BENEFITS OF NEW FERGUSON POWER PLANT

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LCRA's Ferguson Replacement Project was described as efficient, environmentally responsible and economically beneficial during the new plant's groundbreaking ceremony on April 27.

Representatives from LCRA, project contractor Fluor Corporation (Fluor) and LCRA's Board of Directors joined several LCRA wholesale electric customers, elected officials and community leaders at the new plant's construction site next to the operating Thomas C. Ferguson Power Plant. Speakers at the ceremony acknowledged the new plant's future contributions to LCRA's electric customers, the community, neighbors and the environment.

"The existing Ferguson plant has served LCRA and its customers well over the years, but time and technology have given us the opportunity to provide better service to the public," said LCRA Board Chair Timothy Timmerman. "This investment makes good business sense, and it will allow LCRA to continue its tradition of providing reliable, cost-based electricity to cities and cooperatives throughout Central Texas."

LCRA is replacing its 37-year-old Ferguson plant near Horseshoe Bay with a new natural gas-fired power plant that will be one of the most efficient and environmentally responsible electric generating facilities operating in Texas. The 540-megawatt combined-cycle natural gas plant will use about 35 percent less fuel than a traditional gas-fired plant by combining a gas-turbine system and a steam-cycle system to generate electricity. The combination of the cycles creates a highly efficient power plant with lower fuel costs and fewer emissions.

"This new plant will incorporate very cost-effective and clean technologies to produce electricity," said state Sen. Troy Fraser, R-Horseshoe Bay. "It will be good for the people of Texas, and especially beneficial to the area by providing another electric generation resource that will strengthen LCRA's ability to maintain reliable electric service in the Hill Country."

LCRA plans to decommission the existing plant following Fluor's two-year construction phase that is expected to bring the new power plant on-line in 2014.

"LCRA and our community have worked very well together for many years," said Horseshoe Bay Mayor Bob Lambert. "I am pleased that our citizens support such a major construction project and a new, modern plant in the middle of our city."

The groundbreaking ceremony came a little more than a week after the LCRA Board's April 18 approval of the organization's Business Plan for Fiscal Year 2013. The plan cuts \$39.8 million in expenses based upon LCRA goals of developing 100,000 acre-feet of new water supplies by the end of fiscal year 2013 and holding the nonfuel rates LCRA charges its 43 wholesale electric customers flat for the next four years.

"These are new and exciting times for LCRA, and this project will play a very important role in achieving our long-term goals," said LCRA General Manager Becky Motal. "We are committed to our efforts to offer competitive electric rates to our customers and to provide the best services to the region in the most economic, efficient and reliable means possible."

Fluor currently is performing site preparation and expects construction staffing levels to reach a peak of about 450 workers in the spring and summer of 2013.

"Fluor is pleased to participate in today's groundbreaking ceremony and the opportunity to partner with LCRA and the local community on the design and construction of the Ferguson Replacement Project," said Dave Dunning, president of Fluor's Power Group. "Fluor's experience building power plants in Texas, together with our more than 30 gigawatts of gas-fired design, construction and commissioning experience over the past 10 years, will ensure that the needs of both LCRA and the local community are met through this project."

LCRA and Fluor will host open houses on May 3 and May 10 for the public to learn more about the Ferguson Replacement Project. The May 3 open house will be from 5 to 8 p.m. in Horseshoe Bay at the Quail Point Community Center, 107 Twilight Lane. The May 10 open house will be from 5 to 8 p.m. in Marble Falls at the Lakeside Pavilion, 307 Buena Vista Drive.

LCRA sends periodic email updates on Ferguson Replacement Project construction activities to people who have signed up to receive the free electronic newsletter. To subscribe to the updates or to learn more about the project, go to www.lcra.org/fergusonreplacement.

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About LCRA

LCRA is a nonprofit conservation and reclamation district that provides energy, water and community services to Texans. Created by the Texas Legislature in 1934, LCRA has no taxing authority and operates solely on utility revenues and service fees. LCRA supplies electricity to more than 1.1 million Texans through more than 40 wholesale customers. LCRA also provides many other services to the region. These services include managing floods, protecting the quality of the lower Colorado River and its tributaries, providing parks and recreational facilities, offering economic development assistance, operating water and wastewater utilities, and providing soil, energy and water conservation programs.



Letter of Intent

Parties: Lower Colorado River Authority (LCRA) and City of San Marcos (Customer)

Effective Date: _____, 2012

Purpose: The purpose of this Letter is to memorialize, by no later than August 8, 2012, the intent of LCRA and Customer to work toward execution of a definitive agreement (Participation Agreement) for a portion of the output of the Thomas C. Ferguson Replacement Plant, a 540 megawatt, combined cycle gas plant located in Horseshoe Bay, Texas (the Facility).

Participation Share: Customer has the right to 3.52% of the capacity and associated energy output of the Facility, conveyed upon final completion of the Facility and receipt by LCRA of Customer's Payments (as defined below).

Timeline: Customer and LCRA desire to negotiate and execute a Participation Agreement by December 14, 2012 (the Timeline). If the Customer fails to execute a Participation Agreement within the Timeline, then this Letter will terminate and the Parties will not have any further obligations towards one another with respect to the participation in the Facility.

Payments: Customer will be responsible for 3.52% of all project costs and expenses for the Facility, including without limitation all payments under the Facility's engineering, procurement and construction contract, costs for preparing the project site, fees for services (including legal, engineering and consulting fees), construction management expenses, utility and interconnection costs, permitting fees and LCRA labor costs (the Project Costs).

Within thirty (30) days of execution of the Participation Agreement, 3.52% of the Project Costs incurred prior to the effective date of the Participation Agreement will be due to LCRA.

In addition, within thirty (30) days of execution of the Participation Agreement, Customer will provide LCRA security for 3.52% of the estimated remaining Project Costs in the form of (i) cash held in an escrow account, (ii) a letter of credit, or (iii) another mutually agreeable method that ensures LCRA immediate payment for Project Costs as incurred. If the actual remaining Project Costs differ from the estimated remaining Project Costs paid by Customer, then Customer will be responsible for 3.52% of the amount of any increases, or will be credited 3.52% of the amount of any decreases.

An estimate of the Project Costs is attached to this Letter as Exhibit A.

Roles & Reporting: LCRA will act as the project manager of the Facility, the operator of the Facility and the Qualified Scheduling Entity for the energy produced by the Facility. LCRA shall provide the Customer with monthly reports related to the Facility. LCRA recognizes the position that the Participation Agreement will create for Customer, and agrees such reports will provide information commensurate with that role. Specific reporting requirements will be defined in the Participation Agreement.

Dispatch Philosophy: Customer will be allocated 3.52% of the capacity and energy produced by the Facility in any ERCOT interval.

Customer will be allocated 3.52% of all ERCOT settlement revenues or expenses relating to the Facility, including but not limited to energy, ancillary services and other ERCOT settlements.

Also, Customer will pay 3.52% of any penalties from any entity for LCRA's failure to perform or notify according to ERCOT Protocols and binding documents, NERC rules or PUC statute.

Costs: Customer will be responsible for 3.52% of all costs associated with the operation of the Facility, including but not limited to the costs of:

- a. Capital additions and modifications; Fuel, including gas, fuel supply planning, transportation, allocation, and reconciliation;
- b. Operations, including labor costs, general and administrative costs, maintenance, water and other utilities, franchise fees and applicable taxes, reserves, environmental and all other regulatory compliance, litigation, consulting and professional fees, insurance, and casualty damages; and
- c. Retirement and decommissioning of the facility through a mutually agreeable long-term cost recovery method.

Term: The Participation Agreement and Customer's Participation Share will expire upon the sale of the Facility, or the decommissioning of the Facility.

Assignment and

First Right of Refusal: Customer may not assign its Participation Share to a third party other than an affiliate of the Customer without the consent of LCRA. If Customer seeks to sell its interest in the Facility then LCRA has a right of first refusal.

Financing and

Facilities Mortgages: No Party may create an encumbrance on the ownership interest of any other Party.

Participation

Agreement: LCRA shall prepare an initial draft of a Participation Agreement based on these terms and related standard Terms and Conditions, including but not limited to,;

- Term

- Insurance
- Indemnities
- Limitation of Liabilities
- Default and Damages
- Budgets & Standard Reports
- Construction & Start-Up
- O&M
- Fuel
- Market Operations & Settlement
- Representations & Warranties
- Dispute Resolution

Confidentiality: Customer and LCRA agree that the subject matter of this Letter pertains to public power utility competitive matters that are protected from public disclosure by Section 552.133 of the Texas Government Code. Customer will not disclose LCRA's competitive electric information to any third party without the prior written consent of LCRA. Subject to the foregoing sentence, LCRA understands and agrees that Customer's electric utility customers should be informed regarding the Facility and agrees to cooperate in the disclosure of information to help enable Customer's residents to understand the relative benefits of participation in the Facility and, to that end, further agrees to public disclosure of this Letter with the exception of Exhibit "A."

This Letter contains a list of proposed concepts that may be incorporated into the Participation Agreement. The Parties do not intend to be bound by any agreement until they execute the Participation Agreement, and the execution of this Letter shall only evidence the current intention of the Parties to proceed with the preparation and negotiation of the Participation Agreement.

Lower Colorado River Authority

City of San Marcos

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____